

The Influence of Working Capital and Organization on the Financial Performance of Small-Sized Enterprises in Jayapura City

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Abstract: This study aims to identify and analyze the influence of working capital and organization, on the financial performance of Small-sized enterprise in Jayapura City. Data collection methods used were observation, interviews, and questionnaires. Data were analyzed by applying SEM (structural equation modeling analysis method by making use of Amos Software. The results showed that the factors of working capital factor affect the financial performance of small-sized enterprise in Jayapura. Then the organization factor does not affect the financial performance of small-sized enterprise in Jayapura.

Keyword: *Working capital, Organization, Financial Performance*

1. Introduction

Considering the significant of studying small enterprises, it is necessary to know the level of company's performance through strategic perspective approach. By knowing the level of company's performance, it can be used as a guide for those who will participate in supporting small enterprises. This could be seen from an internal capability of each company group and the role of aid that has been given (based on internal conditions owned by each company), so that the description of what internal and external factors that are most dominant in managing small business development, especially in Jayapura city can be seen clearly. In addition, in the course of business undergone by a small company, it cannot be separated from the result of the policies and programs of government aid. But the Government's policy made indirectly has resulted in conditions that encourage to grow larger. This can be proven by many large companies that affiliate with small enterprises, especially small industrial goods so that small enterprises can run more efficiently. In the current competitive situation like this, an entrepreneur must be able to formulate internal strengths in business strategy by performing a combination of the opportunities and threats of the external environment. Until now it seems the conditions in small companies still have weaknesses in determining business strategic and tactic (Stifung & Sutaryo-Rachman 1991: 88).

Tambunan (2002: 19) states that the performance of small and medium enterprises in Indonesia is still low. This is due to the weakness of management, marketing, capital, technology and human resources owned by those small enterprises. While some expressed the opinion that the factors causing the lack of success of small enterprises is the inability of the management, weaknesses in decision making, lack of experience, lack of financial oversight and the weakness in marketing (Scarborough & Zimmerer, 1993:38). In addition, in the course of business undergone by a small company, it cannot be separated from the result of the policies and programs of government aid. But the Government's policy made indirectly has resulted in conditions that encourage to grow larger. With the rapid economic growth and current business developments, as well as the opening of a free market situation. With the number of items offered and increasingly intense competition, the company is required to be innovative in improving management and production as well as the structure of financial wisdom, than the government took measures to open up opportunities for businesses in certain circumstances it can also be an opportunity or instead can be a threat to small companies.

Seeing the importance of small businesses assess this, it is necessary to know the level of performance of the company through a strategic perspective approach. By knowing the level of performance of the company, it can be used as a guide for those who will participate in supporting small businesses. This can be seen internal capability of each group company and the magnitude of the role of aid that has been given (with the internal conditions of each owned), so that it can be seen picture of internal factors are most dominant in the handling of small business development, especially that there is in the city of Jayapura. Each company has a goal to be achieved. This goal is particularly important for the survival of the company in the future. The company would not be made for a period of one month or one year. For

the sake of survival, then each company trying to acquire and allocate limited resources to achieve its objectives. This allocation process must be done in a manner that is efficient and effective, meaning that any resource that is sacrificed is expected to provide financial and non-financial incentives in the future (Cost < benefit). The purpose of the financial indicators such as earnings, cash flow and growth. While the purpose of the non-financial indicators in the form of image in the eyes of the public, consumers, competitors, governments, employees and other stakeholders, bargaining position in the competition as well as political and non-financial matters more. In the corporate finance theory, companies that survive are the companies that create and distribute products and services at the lowest price.

Every effort must begin by giving a complete picture of the efforts that will be undertaken. With a complete picture of the efforts that will be undertaken to smooth and reduce failures. The level of business success or failure can be demonstrated by their financial performance. Other factors that may affect financial performance is the work culture, entrepreneurship and business capacity. The success of the business can be regarded as precision use of internal factors, namely skilled businessman, entrepreneur that include subordinates in the decision, the owner does not double as a manager. Skills and sufficient knowledge of subordinates in the field of business, ease of funding and strong management teams. Factors management capabilities to bring the company into prospective is also an important factor, even the capability of the management group and the strength coaches from outside (government) and the availability of funding is also the thing that makes the company successful. If the company succeeds, it means having a high performance (Bruno et al., 1987: 73).

The opinion indicates that the company's success are common and often associated with the decision-making process. The decision-making process a lot of coloring on factors engineering and business skills, the ability to anticipate business, help increase the knowledge and skills of outsiders and timeliness in processing business opportunities at the management level. Based on the description given on the background of the problems presented earlier, the main problem the research wants to find a solution and the answer can be formulated as follows:

- Does working capital factor affect the financial performance of small – sized enterprises in Jayapura city?
- Does the organizational factor affect the financial performance of small – sized enterprises in Jayapura city ?

Based on the background of the study and the statements of the problem that have been described above, the overall objectives of this research are:

- To analyze and examine the effect of working capital on financial performance of small – sized enterprises in Jayapura city.
- To analyze and examine the effect of organizational factor on the financial performance of small-sized enterprises in Jayapura city.

2. Literature Review

Pablo(2003) divides the company valuation method into (1) a method based on balance sheet. (2) A method based on the income statement that is a multiple or a relative valuation, PER, sales and Price / EBITDA. (3) A method based on the goodwill that is the classical method. Performance measurement mechanism frequently used is financial ratio to look at the effectiveness and efficiency of the use of capital and according to Ruru (1995: 15). There are at least three reasons underlying the developing countries that recently considered the importance of the existence of UKM (SMEs/small and medium enterprises) and the flow of income (profit) generated by the operating companies, provide funds for future investment and give the company the ability to pay short and long term loans. This will result in higher profitability for the company.

Baronet & St-Pierre (2004) stated a positive relationship. Several researchers have looked at the relation between innovation and performance and its impact on the competitive advantage (Verhees & Meulenbergh, 2004). The result of Chung & Shin (2003) showed that Korean capital markets reflect macroeconomic variables such as production index, exchange rate, trade balance and the supply of money. Cheng (1996) found that there is a relationship between these factors and the capital market factors and economic forces both on the stock market in the UK and US. Pakpahan argued, as he defined the ability to compete is competing measured by the cost of production. The lower per unit cost of production of a product is then it is said to have the competitiveness of the products produced. Resource

Based View of The firm (RBV) combines the company's internal analysis with external analysis of the industry and competitive environment. RBV can explain managerial technology. By applying RBV approach, the company will be able to identify objectively determinant in their competitive advantage. This is similar to the research conducted by the researcher of this study. The similarity deals with the quality and ability to compete. Performance measurement mechanism that is often used is the financial ratio to look at the effectiveness and efficiency of capital use and according Ruru (1995: 15) ROI (Return On Investment) is one of the effective management tool in evaluating the business value and at the same performance-ratio manajemen. Rasio the is Return on assets (ROA) and return on equity (ROE), both the instruments giving different results, because the ROA reflects the overall efficiency and effectiveness of the use of assets / wealth of the company to generate profits, while ROE describes the ability to create profits by using the whole capital itself. Based on the results of these underlying differences in doing research that separates the measuring instrument ROA and ROE in researching corporate performance company.

Banz (1981), find stocks of small companies as measured by the market value of equity would have adjusted earnings higher systematic risk than companies with large capitalization. Basu (1983), found in the NSYE, stocks with a Price Earning Ratio of high yield higher revenues than stocks with low earnings Price Ratio. Ely and Robinson (1989), concluded inflation as macroeconomic indicators negatively correlated with stock prices. In the era of high inflation caused stock prices to decline. Despite having the same pattern but the impact of inflation on stock has a different effect. Benu (2002), found: 1. The change should be carried out by actually giving primary attention to the little people through operational programs are real and capable of inducing productive economic activities at the level of the community while fostering the entrepreneurial spirit. There is no denying that build community economy requires political commitment (political will), 2. Some empirical studies show that the general problems faced by Small and Medium Enterprises and Cooperative are: lack of access to resources and capital permbiaya, limited mastery of technology and information, market access limitations, the limitations of the organization and management.

Muthusamy and Palanisamy (2004), menyatakan that organizations that build competitive advantage must create and improve their ability in terms of: (a) create new knowledge (2) transfer at any level and parts of the organization. The organization must be constant learning of: (a) The external environment (b) internal environment to creatively manage the opportunities and threats in the future from the standpoint of current business conditions. Bresser and Millonig (2003), argues that the institutional environment will affect the competitive advantage. Changes in the internal structure also affects the competitive advantage. Ireland and Hitt (1999), argues Effective strategic leadership practices can help firms Enhance performance while competing in turbulent and unpredictable environments. (strategic leadership practices that effectively help companies achieve performance even in a competition in a dynamic environment and unpredictable). So it can be concluded that the policies of the organization will have an impact on financial performance and competitiveness of enterprises. Organizations as internal elements will provide the ability for leaders or employers and employees to act efficiently and always strive to maintain and improve their competitiveness in order to continue to survive.

3. Methodology

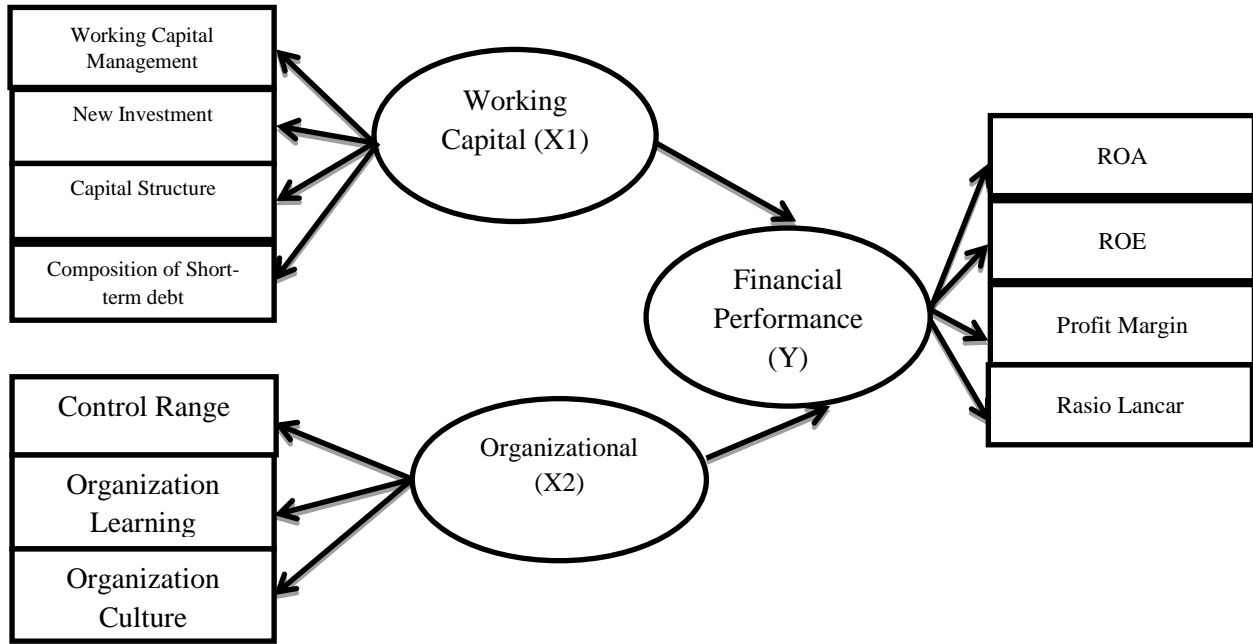
This study is trying to test the effect of the correlation between human resource management, production, marketing, finance, government policy organization, competitors on the performance of the company in improving the competitiveness of small enterprise in Jayapura city. This study used correlation analysis

Hypotheses are as follows:

- Working Capital factor affects the financial performance of small enterprises in Jayapura city.
- Organizational factor affects the financial performance of small enterprises in Jayapura city.

The analysis method used is SEM using AMOS software. This study used Structural equation modeling (SEM), using the program Amos ver, it can explain the interrelationships among compound relationship simultaneously and the ability to assess the relationship comprehensively and led the research design changing from exploratory research into explanatory one (Hair., 1992).

Figure 1: Conceptual Framework



4. Results and Discussion

Affect Working Capital Factors the financial performance

For the test results influence factors of working capital to the financial performance factors are presented in Figure.1

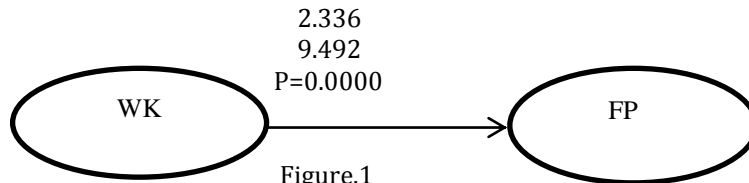
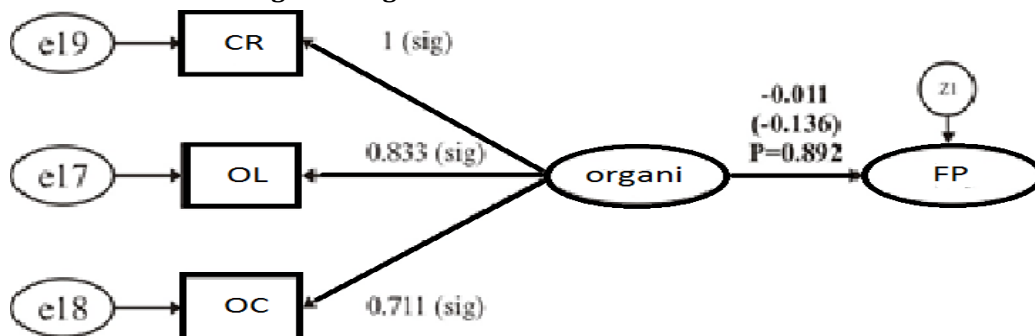


Figure.1

Influence Working Capital factors to the Financial performance

The analysis showed that the working capital factors directly influence firm performance factors. It is powered by a probability value of 0.000 (0%) and the value of the critical ratio (t-test) of 9.492. A probability value is below 5%. For the results of testing the influence of organizational factors on the financial performance presented in Figure. 2

Figure 2: Influence Factor Against Organization Financial Performance



The analysis showed that organizational factors do not directly affect financial performance. It is powered by a probability value of 0.892 (89.2%) and the value of the critical ratio (t-test) of -0.136. This probability value is above 5%.

Table 1: Direct Effect

No	Direct Effect	Critical ratio	Probability	Note
1	Working capital factor → financial performance	9.492	0.000	Affected
2	Organizational factor → financial performance	-0.136	0.892	Not affected

Source: Analysis Results

Working capital factor is measured by four indicators. Those indicators are first, working capital management. It is the amount of working capital divided by total assets. The second is new investment. It is additional new investments on average per year. The third indicator of capital structure is debt divided by assets, and the fourth indicator is composition of short-term debt. It is the short-term debt divided by total debt. Based on these four indicators, the research findings showed that working capital affects the financial performance of small sized enterprises in Jayapura city. These results confirm research from Paminto (2005), he found that partially, the relationship between financial capability with business performance shows the path coefficient 0,363 with a significant level of 0.004, so that the significant effect of financial capability is acceptable. These results indicate if the financial capability has improved the performance of its business will also increase, and vice versa if not more effective financial management, the business performance will menurun. Beberapa research that supports, among others Zanariah (1999) found that the capital structure has a significant influence on ROE. The results also indicate indicators appropriate financial capability to predict the performance of the business. Helferd (1995: 257) concludes that there are three (3) major decision in financial management to create shareholder value, namely: (1) investment decisions, (2) operating decisions, and (3) spending decisions. Thirdly this decision will affect the financial performance.

Organizational factor is measured using three indicators. The first is control range. It is an effective ability of leaders to control their employees. The second is the organization learning. It is the organization's will to always learn from failure. The third indicator is the organizational culture. It is the enterprise adoption of quality oriented values. Based on those indicators, the research findings showed that the organization has no effect on the financial performance of small sized enterprises in Jayapura city. These results indicate that control range, organizational learning and organizational culture do not have an impact on financial performance. Small enterprises also have cultural organization that does not develop properly so it does not affect the financial performance directly.

5. Conclusion and Recommendations

- It is expected that the government of Jayapura city is able to do empowerment of new entrepreneurship in which the direction is focused on trained and developed business practitioner direction of the target offenders who nurtured and developed, so that the growth of new entrepreneurship will be able to increase labor and reduce unemployment. The assistance program in the form of training provided by the government of Jayapura city should be planned carefully to the needs in field of business without targeting on quantity but rather on the quality of the training itself.
- It is expected that small -sized enterprises in Jayapura city improve more efficiency and productivity that are done so that the selling price is relatively low while still maintaining product quality even with better quality, so that it is able to compete with the capabilities owned by company owner and it is followed by the owner's ability to do innovation of products produced by small-sized enterprises.
- It is expected that small businesses in Jayapura city are able to develop capabilities in the field of informal education such as training for company owners and employees because having better knowledge combined with existing experience will produce better performance and increase competitiveness. Employers need to be provided expertise in the fields of management, marketing, finance and technology to face more competitive competition..
- It is expected that the government of Jayapura city makes it easy for small - sized enterprises in obtaining capital structure that is used so that the performance of small businesses in Jayapura city will be able to be superior and to develop, because it has a stronger capital structure. Small-Size enterprises should always improve their own management capabilities, along with the

growth of its business. They should be well-prepared in planning position rolling position to avoid industrial doubt the industry.

- Having been proved that factor working capital affect the financial performance, therefore, the managers of small-size enterprises should pay more attention to these factors on the financial performance. .
- Advanced research aimed to examine this area is suggested to expand population and sample in the area and the type of its business. The indicators provide an important role as indicators of the construct or latent variables should also be expanded.

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